



RA Handbook

A Guide to USDA Foods for Recipient Agencies

Revised February 2013

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Introduction

The USDA Foods Program (formerly known as The USDA Commodity Distribution Program) provides approximately 20% of the food served in the National School Lunch Program (NSLP). The program, established in 1935, serves two key roles: support of domestic agriculture and supporting the nutrition safety net through school meal programs, emergency feeding (pantries), food distribution to Native Americans, and other programs. This entitlement program provides over 1.9 billion dollars in food items to eligible recipient agencies (RA), with schools receiving the majority of the offerings.

The funds allocated to States are based on a yearly established per meal rate. For schools, the amount of funds available is calculated by multiplying the number of creditable lunches claimed in the previous year times the per meal rate. While USDA Foods is a federal program, it is administered to RAs through State Distributing Agencies (SDA). The yearly meal rate published by USDA can be found at: <http://www.fns.usda.gov/fdd/mealrates.htm>.

Schools can elect to receive “direct delivery” USDA Foods for on-site preparation (formerly known as brown box) or can elect to have the USDA Foods diverted to a further processor to make into usable end products such as a fully cooked hamburgers or chicken patties.

The goal of this handbook is to provide schools a “hands-on” practical, easy to use reference for understanding and making the best use of the USDA Foods offered to them.

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USDA Mission

School meal programs are administered at USDA by the Food and Nutrition Service (FNS). The Food Distribution Division (FDD) oversees the USDA Foods program. FNS's mission is to strengthen the nutrition safety net through USDA Foods distribution and other nutrition assistance to low-income families, emergency feeding programs, Indian Reservations, and the elderly.

USDA Foods procurement is administered by the Agricultural Marketing Service (AMS) and the Farm Service Agency (FSA). Their mission is to help to stabilize prices in agricultural commodity markets by balancing supply and demand.

The three agencies work together to meet the demands of their dual missions.

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Getting Started

Source of Funding and Foods Available

The USDA Foods program provides a variety of nutritious USDA Foods for the National School Lunch Program (NSLP) and other recipient agencies. Each school year (SY) SDAs receive an allocation of entitlement dollars to request USDA Foods selected and purchased by USDA. The entitlement dollars made available to each RA is calculated by multiplying the number of lunches served in the previous school year (SY) times an established per meal rate. The per meal rate is based on a formula defined in Section 6 of the Richard B. Russell National School Lunch Act (NSLA) and includes an annual adjustment that reflects the three month average value of the Price Index of Foods used in Schools and Institutions. It is updated each year on July 1. This entitlement is issued to States which, in turn, communicate allocations, known as the Planned Assistance Level (PAL), to each RA according to the number of meals they served.

The yearly meal rate published by USDA can be found at:

<http://www.fns.usda.gov/fdd/mealrates.htm>.

USDA USDA Foods available to RAs are posted on the USDA Food Distribution website - <http://www.fns.usda.gov/fdd/programs/schcnp/>.

Each year, USDA announces a purchase plan for the meat, poultry, fruits and vegetables, purchased by the Agricultural Marketing Service (AMS) that RAs may request using their PAL. The plan is developed by the Food Distribution Division (FDD) of the Food and Nutrition Service (FNS) in conjunction with AMS. FNS communicates the plan to the SDAs through surveys, which in turn are relayed to RAs. Requests for these USDA Foods are usually returned to the States in early spring with delivery periods as noted in individual surveys. USDA procurement of some USDA Foods such as meat and poultry may be on a two week delivery interval, while fruits and vegetables may be purchased in accordance with times of harvest.

Dairy products, grains, nuts and oils purchased by FSA, may also be requested by RAs using their PAL. These USDA Foods, purchased by FSA, are requested by surveys separate from those of the AMS USDA Foods and may be for monthly deliveries.

From time to time, certain USDA Foods, classified as bonus, are purchased. Bonus USDA Foods are agricultural surplus or market support. Their purchase depends on market conditions, and are purchased under different authority from normal entitlement purchases and using separate funds. USDA determines if bonus USDA Foods are appropriate for use in schools or other recipient agencies. Bonus purchases are not charged against an RA's PAL. They are offered to SDAs on a fair share basis and may be accepted or rejected by RAs. RAs should only order bonus USDA Foods which can be effectively used in a reasonable period of time.

The USDA Foods processing program allows schools to send bulk USDA Foods to processors to be manufactured into finished products that are produced under controlled conditions and strong food safety standards. Processing can be a cost effective option when used wisely.

For further understanding of the guidance that follows, see a Glossary of Terms. For a comprehensive understanding of the USDA Processing program, visit the USDA website at: <http://www.fns.usda.gov/fdd/processing/default.htm>

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USDA Foods Available

The USDA Foods Available List is a list of USDA Foods that may be offered by USDA to State Distributing Agencies annually. However, which items will actually be available depends on SDA decisions, market conditions and available funding. SDAs make the final decisions about which USDA Foods from the list will be offered to RAs in their State. The Foods Available list can be found at: http://www.fns.usda.gov/fdd/USDA_Foods/USDA_Foods_available.htm. All USDA Foods have been assigned a “material code”. It’s important to use these codes when you are processing to make sure you are requesting the correct items. Each USDA Foods has its own yields, and that affects your true costs. Listed below are subcategories of the types of USDA Foods available:

Direct Delivery – Minimally Processed: USDA purchases food products for SAs which can be used in recipes for school meals. Minimally processed means only those “agricultural products that retain their inherent character.” Preparations like butchering, husking, cutting, washing, pasteurization, chilling, etc., are not considered processing.

Fruits and Vegetables – USDA offers a wide variety of canned and frozen fruits and vegetables. Some hearty fresh fruits and vegetables are also available through direct delivery, like apples, pears, oranges, grapefruits, as well as white and sweet potatoes. Additionally, some individually packaged sliced items like apples and carrots may be available.

USDA is continuously evaluating and writing specifications to provide USDA Foods that support school foodservice programs meet meal requirements. For example, specifications for vegetables limit the amount of sodium to no more than 140 mg per ½ cup serving.

Meat/Meat Alternate: A significant portion of USDA Foods purchases are meat items in various forms that are packed for use in school kitchens. These include fresh frozen fine ground beef, frozen raw turkey roasts, frozen raw pork roasts, and frozen raw cut-up chicken.

Direct Delivery – Value Added: USDA purchases value added end products for delivery to State agency warehouses or contracted warehouses, or directly to schools for the National School Lunch Program. “Value added” means that the food has been further processed to reduce labor, preparation and/or cooking time of the product, and may include additional ingredients like seasonings.

Meat/Meat Alternate Products: Some examples of value added meat/meat alternate products would be: Chicken Fajita, Diced Chicken, Deli roll products of turkey and ham, Diced and sliced pork ham, hamburger patties, and beef or pork crumbles. In addition, there are a variety of ready to use cheese products that

easily fit into most school meal operations. All of these USDA Foods are either low in sodium or fat or both.

Grain/Bread Products: USDA purchases a number of products to help schools meet their grain and bread meal requirements. These products include whole-grain pastas, whole grain tortillas, brown rice (both regular and quick cooking), whole grain pancakes, whole wheat flour, and rolled oats.

Direct Diversion to Approved Processors for Further Processing: USDA requires State agencies to enter into processing agreements with manufacturers to allow bulk USDA Foods to be used in the production of fully finished end products. Over 50% of USDA Foods are diverted for further processing. Approximately 20 bulk USDA Foods make up 95% of the USDA Foods delivered to further processors. Some of the more popular bulk USDA Foods diverted for processing are frozen Bulk Coarse Ground Beef, frozen or chilled Whole-body Turkey, Chilled Chicken, Frozen Pork Roasts, Bulk Cheddar, Bulk Mozzarella and Bulk Potatoes and Sweet Potatoes.

DoD Fresh Fruit and Vegetable Program: USDA has an agreement with the Department of Defense to purchase fresh produce for schools. The “DoD Fresh” program is managed by the Defense Supply Center of Philadelphia (DSCP) that operates a nationwide system to purchase and distribute a wide variety of high quality fresh produce to military installations, Federal prisons, and veterans’ hospitals. Either SDAs or their schools place orders directly through the Fresh Fruit and Vegetable Order Receipt System (FFAVORS) for a variety of available, American grown fresh produce. There are two methods SFAs can participate with the DoD Fresh Program.

Method 1: RAs can request their SDA to allocate a portion of their planned assistance level for DoD Fresh purchases. As produce orders are delivered, the RAs planned assistance level is drawn down, like a debit system.

Method 2: SDAs enter into an agreement with DoD to allow RAs to use DoD as a prime vendor and can purchase produce from DoD as they would through a commercial produce company using their section 4 & 11 meal reimbursement funds, rather than their USDA Foods entitlement funds.

Orders versus Requests

Throughout this manual, we refer to “ordering” USDA Foods and “requesting” USDA Foods. While it is a convenient way to discuss the acquisition process for RAs and SDAs as orders, there is no guarantee that USDA will buy or deliver items requested by the states. So, while a school director may think they are “ordering” commodities, they are, in fact, placing requests for the items and quantities they want.

Summary End Product Data Schedules (SEPDS)

The SEPDS form is a listing of all products from a processor listing information critical to your use of USDA Foods. The SEPDS includes what USDA Food item(s) are being processed, like Turkey Chilled - Bulk or Coarse Ground Beef, their USDA material codes (100124 for the turkey, and 100154 for the beef). For each case of end product, the SEPDS includes the weight, the number of servings, and the amount of donated food. This will help you calculate how much USDA Foods you need to divert to the processor and what you can expect back from the.

USDA Foods Complaint Process

USDA endeavors to provide quality products and services to RAs. However, as is true with any program, particularly one as large and complex as the USDA Foods program, problems occur. USDA has a process in place to address problems when they occur.

School Food Authorities which operate Child Nutrition Programs should report USDA Foods Complaints to their State Distributing Agency (SDA) as soon as a defect is found with a USDA Food. The SDA will decide whether the complaint can be resolved at the State level, and if not, the SDA will enter the complaint into the Web-Based Supply Chain Management (WBSCM) Application.

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Roles and Responsibilities

The USDA Foods program is a complex, sequential process. Each stakeholder has a responsibility to ensure the integrity and effectiveness of the program; USDA for procurement and administration; States for administration, inventory management, order processing, recordkeeping and monitoring; processors for processing, inventory management, reporting and recordkeeping; distributors for inventory management, billing and recordkeeping; and RAs for effectively using their entitlement dollars, inventory management, and recordkeeping. This section will look at the various partners' roles.

Following is a list of many of the roles and responsibilities of the participants. Some are required by law. Some are simply good business practices. ACDA's website provides many sample forms and systems to assist in carrying out these duties.

USDA Responsibility

Much of USDA's responsibility has been presented in the discussion of USDA Foods available and the USDA purchasing role. As it pertains to RAs, the USDA role is limited to their oversight of the states. USDA has an agreement with states for program administration, and states have agreements with school districts and other RAs. USDA does not have a contractual relationship with the RAs.

Consistent with the two missions of USDA – supporting domestic agriculture and providing a nutrition safety net for Americans, administering both procurement and distribution is complex. Beginning in 2011, USDA migrated many of the administrative tasks from legacy technology systems to a new platform called Web-Based Supply Chain Management, or WBSCM.

WBSCM

WBSCM is a comprehensive, integrated system that is accessible to all partners in the USDA Foods system. AMS and FSA use WBSCM to post solicitations for bids, make purchases, and pay invoices. This is for all USDA Foods activities including international donations. FNS uses WBSCM for entitlement allocations, annual offering catalogs, delivery and receipt, and inventory management. States use WBSCM to open catalogs, take requests, place orders, monitor delivery status, and manage inventory.

In many states, the SDA “rolls down” access to WBSCM directly to RAs. This means that RAs have access to the reports, can submit orders, track status and receipt and other related tasks managing their USDA Foods.

USDA hosts a website that contains an enormous amount of information about WBSCM and how to use it. You can find the site at:

<http://www.usda.gov/wps/portal/usda/usdahome?navid=WBSCM>

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State Responsibilities

The State Distributing Agency plays a critical role in the USDA Foods program. Their responsibilities go in both directions – up to USDA, and down to RAs. They are the conduit through which RAs place orders and receive products, directly or indirectly. And they have oversight and monitoring responsibility as well. Following is a list of some of the SDA responsibilities and activities as well as the support and services you can expect from your SDA.

- The SDA monitors and reviews RA management of USDA Foods as part of its oversight responsibility.
- The SDA must provide guidance to processors and SFAs ensuring program compliance with regulations and policies.
- The SDA must offer RAs a variety of USDA USDA Foods
- The SDA requests USDA USDA Foods on behalf of the SFAs
- The SDA enters into or approves processing agreements
 - State Participation Agreements (SPA)
 - In-State Master Agreements
 - Recipient Agency Agreements
- The SDA educates and informs SFAs of value pass through (VPT) systems available in their state and other state specific requirements.
- The SDA ensures program compliance including Monitors Monthly Performance Reports (MPRs) and Inventory Management

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Inventory Management

Every partner in the USDA Foods program has a responsibility for managing inventory. Federal law limits inventory at any point in the process to no more than six months usage on hand. This limit applies to individual RAs as well as aggregate inventory in a state. It applies to individual donated USDA Foods, as well.

Let's look at a hypothetical example – Coarse Ground Beef. Coarse Ground Beef is a bulk item diverted to processors in 42,000 lb. truckloads. Processors sell end products like cooked beef patties or spaghetti sauce with ground beef to schools. In theory, RAs divert the exact amount of USDA Coarse Ground Beef to their processor of choice to produce the number of cases of products they need for the school year. Read the section on planning below for tips on how to do this accurately.

Sometimes, however, an RA doesn't use all of the products they had planned. Over time, their inventory of Coarse Ground Beef at the processor builds up. Sometimes an RA changes vendors after they have made their diversion requests and may not be able to transfer the existing balance to the new processor. And sometimes, RAs forget to consider their existing inventory at a processor when making determinations for the new school year.

Regardless of the cause, processors and RAs are responsible for reducing inventory of USDA Foods levels to less than six month's supply. States are responsible for monitoring inventory levels at both the processor and the RA and facilitating inventory management through enforcement of the regulations.

There are two primary ways of controlling inventory levels. The first is not to send additional quantities of a USDA Food to a processor whose inventory is too high. This may be applied broadly to the processor, or it may be applied to individual RAs whose balance is the cause of the excess inventory. For example, if, based on usage history, a processor has a full year's inventory of Coarse Ground Beef in storage, even though RAs request diversion of additional pounds to that processor, the SDA can refuse to place those orders until the inventory comes into compliance. Or, if an individual RA has enough Coarse Ground Beef to meet its historical usage for more than six months at a processor, additional requests for diversion to that processor by that RA may be declined by the state.

The second way to reduce inventory is through transfers. Transfers can be between processors, between states or between RAs. Let's take a brief look at each.

Processor to processor transfers – If an RA selects a new processor for the new school year, they may request that their existing balance at the old processor be transferred to the new processor. Frequently, such transfers occur on paper as the changes between processors by RAs may balance each other.

Transfers between states may occur if one state's inventory exceeds its six month limit. States may transfer excess inventory to another state that can use the product more efficiently.

All transfers must be managed by the SDA.

Detailed guidance about inventory management can be found in USDA Policy Memos. FDD-064 was updated in early 2012 and can found in Appendix XX.

Processor Performance Monitoring

It is critical that all the partners in processing USDA Foods area accountable for their part of the program. Like all purchases, RAs must ensure that they are, in fact, receiving what they order at the price agreed to. This includes monitoring vendors' performance. In the case of USDA Foods, this also includes tracking commodities and making sure the agency receives the full value of the donated food.

SDAs bear the greatest responsibility for monitoring processor performance. They do this through Monthly Performance Reports (MPR). Each MPR must be reconciled against sales, transfers, receipts and inventory data, and discrepancies must be resolved. A core element in the USDA Foods program is that federal dollars, whether the dollars or the USDA Foods they buy, are accurately accounted for.

Summary of Partners' Responsibilities

The USDA Foods program is a complex, sequential process. Participants at each step along the way must assume responsibility for their role. The participants include USDA, states, recipient agencies, processors and distributors. Each is responsible to ensure the integrity and effectiveness of the program. Following is a list of many of the roles and responsibilities of the participants. Some are required by law. Some are

simply good business practices. ACDA's website provides many sample forms and systems to assist in carrying out these duties.

USDA

- Establish annual entitlement and communicate to states
- FDD, AMS and FSA develop purchasing plan for USDA Foods offered
- FDD Communicates surveys to SDAs
- FDD manages and finalizes SDA orders
- FDD approves National Processor Agreement, EPDS and SEPDS
- FDD sets the level of bonds required for processors
- FDD maintains updated list of nationally approved processors
- FDD monitors national MPR of inventories at processors
- FDD reviews independent audits required of processors
- AMS notifies FDD of processor recall
- FDD notifies processor and states of processor recall

State

- Communicates allocations and surveys to RA
- Consolidates RA orders, coordinates with other SDAs to meet truckload shipping requirements, and forwards requests to FDD for delivery of USDA Foods
- Determines which VPT systems will be accepted from each processor
- Signs participation agreements (SPA) with multi-state processors
- Signs SEPDS
- Enters into agreements with in-state processors
- Communicates processor approvals to RAs
- Monitors, establishes and enforces policies that ensure inventory levels at RAs and processors conform with limits established in regulation
- Follows recall procedures established by USDA and develops and maintains a system to communicate hold and recall information in a timely manner
- Provides training and education to RA's
- Serves as a resource to RA's for USDA Foods related issues
- Is required by law to ensure that RA have the maximum options available to them to use entitlement
- Receives and reviews monthly performance reports

Processor

- Enter into agreements with USDA (NPA) and/or states (processing agreements and SPA) to process USDA Foods.

- Secures performance and surety bonds as required.
- Provides SEPDS to states.
- Responds to bids and contracts from RAs and SDAs for processing USDA Foods
- Provides detailed product information to assist RAs in meeting menu and production requirements.
- Produces products that follow all federal and state requirements including inspections, grading, labeling and other related activities. Where requested or appropriate, individual items that meet requirements for CN labeling.
- Bills RAs in accordance with bid using state approved VPT method
- Ships end products to RA or state designated destination(s)
- Conducts monthly sales verifications
- Provides monthly performance, inventory and production reports to state and FDD
- Retains records for a minimum of three years
- Maintains tracking system for USDA USDA Foods from receipt through production and delivery to all sites.
- Responds to recalls in accordance procedures established by USDA

Distributor

- Stores and delivers USDA USDA Foods in accordance with RA bids or processor agreements
- Maintains tracking system for all USDA Foods received, stored and delivered
- As required, maintains system to monitor RA USDA Foods inventory at processors to ensure accurate VPT crediting.
- Follows recall procedures established by USDA

RA

- Plans menus to meet meal pattern requirements
- Determines USDA Foods and quantities to request using entitlement dollars
- Develops and awards bids for processing
- Places requisitions for USDA Foods using WBSCM or other state designated system or method
- Forwards responses to surveys to state, designating processor and quantity of USDA Foods to divert
- Monitors orders to processor to assure steady drawdown of inventory
- If end products purchased using the NOI sales method, RA must participate in verification procedures
- Monitors processor and distributor bills to assure value pass through of USDA USDA Foods are received

- If contracting with distributor to store and deliver USDA Foods, should have signed agreements governing roles and responsibilities for handling USDA Foods. Sample agreements may be found in Appendix XX
- Follows recall guidance as provided by FNS Food Safety office
- For food safety notifications, RAs should register on www.envoyprofiles.com/USDA-ALERTS/

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Planning and Forecasting

Menu Planning

Your menu is the heart of your operation; it must take into account student likes and dislikes, as well as meet the nutritional requirements for reimbursable school meals. USDA Foods should not drive your menu; your menu should determine what USDA Foods you elect to use. It is important to develop a menu for your operation that first meets your students' needs, and then determine what commodities are available that support your menu. It does not benefit you to bring in commodities that your students will not eat under the assumption that commodities save you money.

Past Usage/Forecasting

Once you determine what your menu is going to be and what USDA Foods you want to use, you need to determine the quantity of product you feel you will need for a given period of time. It is important to use historical data - whether inventory counts, meal counts, or production records - to forecast what you think your students will take each time a product has a menu placement. Once you have an estimated count and determine how often the item is on the menu, you can determine how much of a given product you want to request from USDA. More than half of all USDA Foods ordered are sent to further processors.

Many processors have spreadsheets or "commodity calculators" available that will assist in determining how many pounds of raw product need to be sent to a processor to meet your menu needs. If you do not have a processors spreadsheet, refer to the SEPDS for the product to determine the number of pounds of product (DF) needed per case.

Analyzing Costs and Value

Do not assume that just because a product contains USDA commodities it represents a savings. Several factors need to be evaluated before you proceed with processing commodities:

- Does the product that contains USDA commodities have a commercial equivalent?
A commercial equivalent will guarantee consistency on your menu.
- Can you afford the commercial equivalent if you run out of commodities?
- What is the cost of processing the commodity:
 - What are the state charges, if any, for USDA Foods?
 - What is the handling fee you pay your distributor?
 - What are your storage fees and how many months will your product be in storage?

**The true value of a product manufactured with USDA commodities =
Value of USDA donated food + state charges + processing costs+ storage
and handling fees**

In the end, you need to determine what is the best use of your entitlement dollars: USDA direct delivery (brown box) raw commodity, USDA direct delivery further processed items, USDA commodities diverted to a further processor of your choosing. Like all other purchasing decisions, the use of your commodity entitlement must be in the best interest of your students and your program.

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Yields

An important factor to consider when making a decision about further processing is “yield”. There are several methods of determining yields:

Guaranteed Minimum Return (GMR): The minimum weight or number of finished units of processed end items that will be produced and returned using a fixed amount of commodity food. The exact amount of “donated food” that is required to produce one finished case is available on the SEPDS. Under GMR the further processor is accountable for making an RA “whole” if the actual production is short from the GMR; conversely, the RA may expect to receive all cases from an “overrun”. Some RA’s have found the lack of predictability of exact number of case per order to be problematic in planning for receipt and menu planning.

Guaranteed Return (GR): This yield is most common for the further processing of commodity meat. A further processor must have a USDA approved Process Control Certification Program in place in order to offer this option of guaranteed return to an RA. Under GR, a further processor guarantees a fixed number of cases will be produced using a fixed amount of meat. This ensures that the RA will receive a predictable number of cases from the diverted meat sent to a further processor. A processor must meet and maintain internal controls as overseen by USDA in the PCCP program to offer GR to its school customers.

Standard Yield: This yield is most common for the further processing of commodity poultry. The standard yield is fixed by USDA and is set at a level that requires the processor to add commercial equivalent raw materials to achieve the set yields for each component part of the poultry—chicken and turkey. Although this adds to the cost of the end items for RA’s, it has the benefit of ensuring that they will receive a predictable number of cases of finished product which assists in menu planning.

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Value Pass Through

Federal law requires that RAs receive the full value of their USDA Foods. When processing, this value must be passed through to the RA by the processor. The method used to credit the RA is called the value-pass-through (VPT). There are three primary forms of VPT, with variations in each.

- Rebates are a method where the RA pays the “commercial” price for a processed item and submits a request for rebate to the processor, who issues a check for the value of the donated USDA Foods used. With rebates, the processor benefits from receiving payment for the full cost of processed item until it issues payment to the RA for the value of the donated food. The distributor benefits by billing at the higher commercial price. The RA does not receive the benefit of the USDA Food until it receives the rebate check.
- Fee for Service (FFS), is a method where the processor bills for the costs of processing without the value of the donated food included in the price. Under FFS, the processor does not benefit from the value of the USDA Foods used. The effect on distributors depends on which FFS approach is used – FFS by the processor, or FFS by the distributor. The RA benefits by receiving the value of the donated food up front by not paying the processor for the value of the donated food and awaiting the rebate payment.
- Net off Invoice (NOI) is a method where the processor bills the distributor at the commercial price, but the distributor bills the RA at the FFS price net of the value of the donated food. Upon delivery to the RA, the distributor requests a rebate for the value of the donated food from the processor. The processor benefits by billing at the commercial price. The RA benefits by paying the price minus the value of the donated food. These items are “commercial” and incur no storage costs. The distributor does not benefit until the processor issues the rebate check.

A key issue in VPT is who owns, or has title to the donated food at each point of the sale. While this seems legalistic and arcane, it is a critical issue, particularly because of the amount of federal dollars involved. It relates to responsibility and liability.

Substitution of USDA Foods

To improve the efficiency of processing, for some items, USDA allows processors to use commercial USDA Foods in processing for schools, and USDA Foods in commercial production. This is referred to as substitutability. This is important in the discussion of VPT as it impacts when title to the USDA Foods item transfers and to whom.

- **Substitutable**—A USDA Food which may be replaced by a commercially purchased food of domestic origin and of equal or better quality to the commodity food provided by USDA. Cheese is one of the most common substitutable USDA Foods.
- **Non-substitutable**—A USDA Food that cannot be substituted with a commercially purchased product under the terms of the processing agreement.

- **Limited Substitution**- Further processors of poultry are permitted to substitute commercial poultry for USDA purchased poultry if approved by both AMS and FNS.

For substitutable items, processors may choose to “front load” an RAs bank of available donated USDA Foods and start selling end products even before they receive the USDA Foods. They do so at their own risk, and USDA discourages this practice. If USDA does not buy the USDA Foods item, or if the RA overdraws its entitlement, the processor is financially liable for the value of the “credit” extended to the RA.

Note: Buy American is required for all purchase of commercial equivalents for substitutable USDA Foods and for limited substitution of USDA poultry in order to ensure that domestic agriculture is supported.

Value Pass Through Systems Approved by USDA

Rebate to Recipient Agencies

The rebate system is a straightforward means of passing the value of USDA Foods through to RAs. The recipient orders and receives end products for which USDA has approved the use of donated USDA Foods (DF) from processors or distributors. USDA approves the products and the pass through value through an end product data schedule (EPDS) which provides explicit information about the amount of DF, the value of the DF, the other costs of processing including other ingredients, and other specific data. The RA pays the processor or distributor the commercial price for the finished goods. At such times as are agreed to between the RA and the processor, the RA submits a rebate request from the processor for the value of the DF used in goods it has received.

The rebate system has advantages and disadvantages for all parties. For the processor, they benefit from the value of the DF, usually the most costly part of the products they use, until they rebate the value of the commodity, having been paid at the commercial price. However, reconciling inventory and ensuring that RAs have received the pass through value may be difficult.

Fee For Service

Fee for Service is the most direct, least complicated and most transparent value pass through system.

Fee for Service is the price charged by pound or case which represents the Processor’s cost of ingredients (other than USDA Foods), labor, packaging, overhead, and other costs incurred in the conversion of the USDA Food into the specified end product. Fee for Service is the most commonly used value pass through system and is generally approved across the United States.

The processor never takes title of the USDA Foods and retains full accountability and responsibility for the value of the USDA Foods until delivery of the end items to the RA’s designated delivery point.

Processors must have an approved National Processing Agreement with FDD, approved End Product Data Schedules, a bond or letter of credit, and an approved State Participation Agreement and Summary End Product Data Schedules (SEPDS). Processors are accountable for delivering end items in the quantity guaranteed on their EPDS. Any shortages must be made up at their own expense—ensuring that any substitution of raw material for USDA Foods is equal to or better than the USDA food specification including only using domestic materials. Processors are subject to independent CPA audits-the frequency determined by the volume of their processing.

Fee for Service Through a Distributor

Fee for Service through a distributor has the distributor billing the FFS on the same invoice as the distributor's charges for the item. In FFS from the processor, the processor bills these costs directly, and the distributor only bills their shipping/handling fees.

There are a number of recommended and sample forms for agreements between RAs and distributors in the appendix.

When implementing Fee for Service through a Distributor, a written agreement outlining the business practices and responsibilities of the processor and distributor will ensure a clear understanding of the roles of each party. In most cases, the RA selects the distributor and, therefore, should initiate the agreement. ACDA recommended Agreements are included in this handbook

Net Off Invoice

Net off Invoice (NOI) is also known as “indirect discount”. In NOI, the distributor bills the district the commercial price net of the value of USDA Foods included in the product. When implementing the NOI VPT method, a written agreement outlining the business practices and responsibilities of the processor and distributor will ensure a clear understanding of the roles of each party. ACDA approved agreements are included in this handbook.

Single State Processing Agreements

Some processors elect to only process in one state. Single state processors are accountable for all of the above stated requirements as a national processor.

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Procurement

Federal procurement requirements are based on the simple premise that all procurement must be fair, open and competitive. Regardless of the procurement method used, awards must be made only to responsive and responsible offerors. Responsive means that the offeror and their offer meet the requirements of the procurement. Responsible means that the offeror has the means to execute the procurement – they have the ability to provide the goods and/or services required.

Because school foodservice programs are the recipients of billions of dollars in federal grants, procurement is subject to federal law. It is important to note that all RA procurement is subject to federal law even though not all school foodservice revenue comes from the federal government. A school district cannot segregate revenue by source and apply different rules to the non-federal portion.

In general, federal law falls into two categories – statutes and regulations. Statutes are the laws passed by Congress and signed by the President. By and large, statutes set broad policy for the government. Federal Agencies, like USDA, then write regulations to implement the statutes.

The laws governing school meal programs, including procurement, are contained in two statutes – the Richard B. Russell National School Lunch Act and the Child Nutrition Act of 1966. Regulations are found in Title 7 of the Code of Federal Regulations - Agriculture.

Resources

The most important resource for learning about procurement is the law. Procurement law for programs administered by USDA can be found at 7 CFR 3016.36. Go to www.gpo.gov and follow the thread to the required section.

Procurement regulations specific to Child Nutrition are at 7 CFR 210.21 and can be found at http://www.fns.usda.gov/cnd/governance/regulations/7cfr210_12.pdf. This section refers back to 7 CFR 3016.36 as its authority. The regulations for food distribution are provided at 7 CFR 250.

Additionally, USDA issues guidance and policy memos that provide clarification and explanations for regulations. These policy memos carry the weight of law. There are two databases of the guidance materials, one for school meals and one for food distribution. They can be found at <http://www.fns.usda.gov/cnd/governance/policy.htm> and http://www.fns.usda.gov/fdd/policy/schenp_policies.htm respectively. It is worth reviewing the lists of titles for these policies to familiarize yourself with their range of topics. Also worth noting is that policies may be updated from time to time, but will retain their original reference number. For example, a recent update affected FDD 007, first published in 2003. Look for “revised” in older policies.

The National Food Service Management Institute (NFSMI) is a federally funded program based at the University of Mississippi. NFSMI provides a great deal of information, research and training for school meal programs. The 2004 Child Nutrition Reauthorization included a requirement for USDA to provide training on procurement. Using funds provided by Congress for this purpose, USDA contracted with NFSMI to develop online procurement training for state agencies that is now

available to all. Thus far, two of the three modules providing comprehensive training have been published and are available at

<http://www.nfsmi.org/Templates/TemplateDefault.aspx?qs=cElEPTIzOA>. The two courses are titled *USDA State Agency Guidance to Procurement* parts 1 and 2. A third module dealing with specific issues including commodities, co-ops and Food Service Management Companies is scheduled for development in the fall of 2012. The courses are free.

NFSMI also offers a course called *First Choice* that is a comprehensive basic training program for school foodservice practitioners. You can find the course at <http://www.nfsmi.org/ResourceOverview.aspx?ID=64>. Check the revision date to ensure you are working with the most recent edition.

School Nutrition Association (SNA) has developed a toolkit to assist in procurement. The *School Nutrition Supply Chain Toolkit* includes a number of sample forms and materials that can assist RAs in building a strong procurement system.

Federal procurement law for grantees and subgrantees (states and schools) defers to states and local agencies for the final word in the legal requirements for purchasing as long as the state or local rules are no less restrictive than the federal requirements. This is known as the federalism principle. The most common example of the federalism principle is what is commonly referred to as a “bid limit.” A bid limit is the maximum amount an agency can spend without utilizing a formal procurement method. The federal bid limit, which they refer to as small purchase threshold, is \$150,000. That is, any purchase using federal funds with a value of less than \$150,000 does not require a formal bid or proposal. However, most states and many school boards set a much lower limit on the buyer’s authority. It is as important that RAs understand their local and state procurement laws and guidelines as federal law.

American Commodity Distribution Association (ACDA) has worked with USDA for many years to develop forms and training materials for the USDA Foods program, including this manual. Many resources are available at

<http://www.commodityfoods.org>

Rules to Note

There are a few special issues that are addressed in the statutes, regulations and guidance to make note of. Copies of policy memos referenced here are included in the appendices.

Buy American – This is the requirement that all goods purchased for school meal programs must be predominantly produced, processed and packed in the United States. The Buy American provisions are part of the school lunch act in section 12(n), and the implementing regulations are 7 CFR 250.23. There are also a number of policy memos which address Buy American requirements either stand alone or as part of Q & A guidance on procurement.

Inventory Management – An ongoing concern in the USDA Foods program is ensuring the timely use of commodities distributed to RAs. Sections 7 CFR 250.14(f)(2) and 7 CFR 250.30(n) both address this issue by limiting inventory not to exceed six months usage. Also, policy memos issued in 2012 (FD 107 and FD 064 rev.) add specific guidance on this.

Value of Inventory – As is discussed elsewhere in this manual, there are several ways that the value of USDA Foods is determined. This becomes very important during both program and financial audits. Policy Memo FD 104 issued in 2012 addresses this.

Food Service Management Companies – FSMCs are a special case in school foodservice, and there are regulatory sections governing them in both the program area (7 CFR 210.16) and food distribution (7 CFR 250.50-54).

Cooperatives and Buying Groups – An increasing number of RAs are joining together through co-ops and buying groups. USDA issued a policy memo (SP 35-2012) in June of 2012 with guidance addressing this.

Bidding Commercial and Processed Goods with One Solicitation – RAs may elect to have the same distributor manage both commercial and commodity processed items. USDA provides guidance and instructions for this in FD 119.

Geographical Preferences – There is a growing emphasis on the purchase of locally grown products, products and Child Nutrition programs may apply a geographic preference when procuring locally grown or raised agricultural products. USDA has published several guidance and Q&A documents on this issue. Refer to the USDA website for current information.

Procurement Methods

There are several ways to meet the fundamental principles of procurement - fair, open and competitive purchasing,

Invitation for Bids (IFB) is a formal method used when the only significant point of differentiation between vendors is the price.

Requests for Quotation (RFQ) is similar to bidding except that it is less formal, in some cases much less formal like simply calling several vendors and asking for the price on the goods or services a district is requesting.

A **Request for Proposals (RFP)** differs from bids and quotes in that there are other factors that are considered in making an award. For example, service may be of critical importance, or the skills and experience of the vendor. While RFPs are frequently used when procuring services, there are a growing number of districts that are using RFPs to obtain goods when they are looking for additional services as part of the contract.

A **Request for Information (RFI)** is a method of identifying the range of possibilities available when a district is unsure what to include in their procurement. As with all forms of procurement, RFI's must be open to all potential respondents. The RFI might be used to prequalify vendors moving forward. USDA has determined that a district cannot make an award based on an RFI, but must issue a subsequent IFB or RFP that is more exact.

Some jurisdictions allow what is known as an *Intergovernmental Agreement* or a “**piggyback**” clause. This type of contract allows other entities to make purchases against a legally awarded contract by the initiating agency. For example, a school district may award a bid for milk and dairy products that other districts in the area

may use for their own milk purchases. There are three considerations to these contracts. The first is that state law and local/district rules must allow this, and both the issuing district and the district that wishes to piggyback on the contract must agree. Second, the vendor must agree as well. In one model, all potential agencies are listed in the IFB or RFP, and offerors check which, if any, of these agencies they are willing to serve. Third is that the agency wishing to take advantage of a piggyback contract must accept it as written. They cannot negotiate changes to the award. Vendors accepting piggyback options frequently include a broad range of options in their contracts to allow flexibility to agencies wishing to take advantage of the contract.

Things to Consider

This manual does not provide detailed training on basic procurement. Readers are encouraged to use one of the resources identified above. However, in general, sound competitive practices are established procedures that are consistently followed resulting in procurements that are conducted fairly, with integrity and uniformity, so that the goods and services procured meet the needs and quality standards of the purchaser at the best possible price. Sound competitive practices foster full and open competition and are free from real and perceived conflicts of interest.

A few key considerations:

Specifications for goods and services should be as detailed as possible to ensure receiving exactly what the district requires. Estimated quantities should be as accurate as possible and updated regularly.

Specifications should not limit or prohibit any responsible vendor from responding.

Sole source procurements are very rare and there must be clear and compelling reasons for engaging in this type of procurement. Approval by the State Agency is required for sole source purchases.

Procurements should almost always allow for alternative brands or products that meet the specifications. This may take the form of including “or equal” when identifying acceptable products.

Federal law prohibits contract awards to vendors who have provided written specifications to the procuring agency. However, potential vendors may provide information used by the procuring agency in drafting their own specifications. This issue is addressed in policy Q&As.

Award factors must be clearly stated. In the case of an RFP, a scoring system with weights for each factor should be part of the original solicitation.

It is acceptable to prequalify products as long as the prequalification process meets all of the requirements for fair, open and competitive procurement. For example, student taste tests may be used to prequalify a group of products, with products scoring above a clearly stated threshold included in the bid. Or a district might have a prequalifying round for a service they wish to procure and only companies that meet the threshold standards are invited to propose.

Processing USDA Foods poses a number of special issues. As is discussed in the section of this manual on value-pass-through (VPT), the value of the commodity, the

cost of processing, and the cost of distribution should be addressed separately. Additionally, large districts and co-ops might generate sufficient volume to bypass a distributor and take shipments directly to their own warehouse. The upside of this may be a savings in cost for the direct-ship items. A downside is that by removing high volume items from a distribution bid the cost for other items may be higher. Districts should weigh all costs and make decisions that are in the best interest of the program.

There are any number of additional things to consider in meeting the basic principles of a good procurement. However, if a district adheres to the basic principles of fair, open and competitive, they will likely be successful in their efforts.

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Co-ops and Buying Groups

Many school districts have found great benefit from joining a purchasing cooperative or buying group. In fact, USDA recommends cooperative purchasing as a means to reduce costs by increasing the volume of procurement contracts. However, as with all purchasing decisions, districts should weigh all of the issues and do what will be in the best interest of the program.

Types of Co-ops

There are a number of ways that school districts can organize together to save money in their procurements. Some co-operative purchasing focuses on USDA Foods and processing only. Others are used for a broader range of products and services. The fundamental premise in cooperative purchasing is to lower costs by increasing the volume. When vendors reduce their operating costs or improve the economies of production through volume, customers benefit. For this manual, we will only look at commodity co-ops, but the same principles apply elsewhere.

One of the benefits of commodity co-ops is their ability to combine the ADP of the participating agencies. Most USDA Foods are distributed in truckload quantities. Of particular note are bonus commodities. Frequently, only agencies that qualify for full trucks are even offered certain bonus items. So pooling ADP increases what may be offered to the co-op.

In its simplest form, a co-op can be a group of school districts within a geographic area agreeing to pool their purchasing power through a single agency. In this case, the school boards of all the districts agree to abide by a common procurement, most likely an IFB. Only one district executes the procurement on behalf of all the districts. The participating agencies jointly agree on the specifications for each product on the bid list and agree to abide by the majority or consensus decision. They then estimate the quantities to be purchased by the combined agencies.

There are two significant issues that must be addressed in this type of co-op, although they are common to most group buying. First is the restriction of choice. When a school district decides to participate in a cooperative buying program, it must agree to abide by the co-op's decisions. If each district can order any items they want, regardless of the group's common list, the volume benefits diminish for the vendor and, hence, prices reflect this. Second, if the successful vendors are required to manage USDA Foods inventory balances and billing for each district individually rather than the buying group as a whole, there is no savings on administrative costs. Similarly, if the vendor is expected to deliver to each district rather than a single, common delivery point, there is no savings to pass on to the member districts.

The most effective model for commodity co-ops is where a "lead district" is the single recipient of USDA Foods, the single procuring agency, the single delivery point, and the single billing recipient. In this model, the participating agencies' boards approve the transfer of their commodity entitlement to the lead agency and pay that district for its share of the costs and charges.

A variance on the above model brings a third-party administrator to the table. There are several examples of both for-profit and non-profit co-op buying administrators. In

all cases, however, the administrator requires compensation for their efforts. The most benign model has the participating agencies pay a prorated share of the operational costs based on their share of the total volume of USDA Foods they receive. Others require an annual fee and a per case cost of either the commodities shipped to the co-op and its processors, or end products delivered to the recipient agencies.

A question arises in cooperative buying groups regarding their authority and their responsibility. 7 CFR 250.3 includes a definition that says that if a company, whether for-profit or non-profit, manages any aspect of the recipient agency's program, it is considered a food service management company (FSMC) and subject to regulations governing FSMCs. Some third-party administrators say that they are only providing administrative services and not making any decisions (managing) procurement. It is important to have roles and responsibilities clearly defined both in principle and practice.

A similar concern has to do with how a third-party administrator is selected by a buying co-op. A June 2012 policy memo from FSN (SP 35-2012) provides guidance that clearly states that contracting for co-op administrative services requires following federal procurement standards, including the term of a contract. In effect, the co-op, directly or through the lead district, must bid co-op administrative services.

Regardless of the type of cooperative buying program a district participates in, the law is very clear that all rebates, discounts and other credits must go to the recipient agency. An administrative system must be in place to ensure that each district receives all of the refunded cost for which it is eligible. The administrator may not retain any of these funds. In models with a lead district, checks should be made out to the district for redistribution, not to the administrator.

To sum up, Recipient Agencies considering participating in a cooperative buying group should carefully weigh the costs and benefits of the program. Will they receive value, either by having access to limited availability items, or reduced prices because of the economies of scale enjoyed by larger purchasers. But to enjoy these volume benefits, the agencies must give up some control over what items they may order. All costs should be considered including any fees or shared expenses for co-op operations. And when using a third-party administrator, those services are subject to the same procurement requirements as any other purchase of goods or services.

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Procurement Topics of Consideration

This manual does not provide detailed training in the general area of procurement, keeping its focus on the very specialized area of USDA Foods. There are a number of references to other resources for RAs who want and need procurement training, an area of need for many program operators. However, there are several key components of procurements particular to the commodity program.

The following topics are mostly specific to USDA Foods that are recommended to be addressed in bid documents so that the bidding process is easier and a more cost efficient process for both the RA and the manufacturer/distributor. The help ensure consistency with the basic principles of fair, open and competitive procurements

NOTICE AND PUBLICATION: Every potential bidder must be given an opportunity to respond. RAs are legally required to publish/post all IFBs and RFPs. Prospective bidders may be notified via advertisement in national or local newspapers, email, facsimile, and/or posted on a designated website for retrieval.

FACTORS USED FOR EVALUATION: Clearly list the factors that will be used to evaluate and determine the winner of the bid. Any clarifications to the IFB or RFP provided to prospective bidders during the solicitation phase must be provided in writing to all. The factors should reflect their importance to the program, so factors should be weighted. With respect to USDA Foods, factors might include years of experience in processing, existence of current NPAs, a clean record with USDA for food safety, and compliance with reporting and record keeping. They might also include the means used to manage and communicate inventory status, like using a well-supported third party software program.

TIMING: It is valuable to determine when a new contract period starts, how long it lasts, whether the contract may be renewed and if so, how many times, and escalator clauses to allow adjustments that reflect changing market conditions.

PRODUCT SPECIFICATIONS: Beyond standard requirements for purchasing goods, a USDA Foods IFB or RFP should include language related to the use of donated USDA Foods. Also, if desired, include language about offering items that have commercial equivalents so there is consistency throughout the term of the bid with or without USDA Foods. Where USDA Foods are to be used, the specification should indicate USDA commodity ingredient(s) that will be processed. Indicate direct diversion or a backhaul arrangement. We recommend avoiding backhauling if at all possible.

USDA has a certification program called CN Labeling. THERE IS NO REQUIREMENT that USDA Foods need to be CN labeled. The value and cost of the CN Label is not part of this manual.

To meet federal menu planning requirements, it may be important to ask for nutritional statements for all commodity processed items being bid.

YIELD: There are several methods for calculating the yield of donated USDA Foods in processing. A discussion of these different methods can be found on

page 13. It is important to request documentation of the method each bidder uses. The effect of yield calculations can be seen on the SEPDS, so you might consider requesting that the bidder submit a copy of the current, approved SEPDS with their response.

QUANTITY DESIRED: You should include a realistic estimate of the quantity of each item you anticipate purchasing for the term of the bid. However, actual purchases may be contingent on the availability of the USDA Foods items used in producing the items. The procurement should clearly state this. If bidding both commodity processed and commercial products, include the total quantity needed, with language that requires delivery of the processed item whenever donated USDA Foods are available.

VALUE PASS THROUGH METHOD: VPT is discussed elsewhere in this manual. However, it is critical to include a requirement that responders identify which one they will be using and that the SDA has approved this method in your state.

RECORD KEEPING: As previously mentioned, many processors use one of several third party systems for managing inventories. The procurement should request information about which third-party program the bidder uses or what method it uses to track USDA Foods and entitlement dollars. You might also ask if there are any additional costs to you for these services.

TITLE TO PRODUCT: This is a highly technical, regulatory issue. However, you might include language in your procurement that you are not responsible for USDA Food products until you have received them, either in your district or to your approved distributor. Similarly, any storage or distribution bid should include language regarding liability for donated USDA Foods.

BUY AMERICAN: As discussed elsewhere in this manual, federal law requires that RAs only purchase USDA Foods that are produced and packaged domestically. This is especially true for USDA Foods. Regulations require that all procurement clearly state this.

SUSPENSION AND DEBARMENT: This is also a technical issue. However, it is important to include language that prohibits companies that are debarred from doing business with USDA may not participate in the procurement. The RA can obtain this assurance by checking the Excluded Parties List System (EPLS) (<http://www.epls.gov>) and documenting this process by printing a copy of the status. In addition or in lieu of, the RA can have the bidder certify that they are not debarred, suspended, or proposed for debarment through the collection of a certification, or by adding a term or condition in any lower tier award agreement to the bidder enter into requiring disclosure or non-procurement debarment and suspension status.

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Food Safety

Food Safety is a critical issue for all of the partners in the USDA Foods programs. The first line of defense is keeping unsafe USDA Foods out of the supply chain. But when an incident occurs, or is believed to have occurred, how USDA, SDA, processors, distributors and RAs respond is extremely important. Systems for addressing food safety issues, particularly in the event of recalls is ever evolving, and readers of this manual should regularly check the USDA websites and their SDA for updates.

In the event that a USDA food purchased by USDA is sent to a processor and is subject to a recall, notification procedures have been developed by the Food Safety Office of FNS to ensure that products produced from those products are not served in schools. All participants in the USDA processing program should consult this manual, which can be found on the NFSMI website: “Responding to a Food Recall”. In the section of this RA manual, “Participant’s Responsibilities”, it is emphasized that all parties should adhere to the USDA policies for responses to recalls and that 24/7 contact information must be provided in all contracts.

Responding to a Recall

USDA developed a handbook with instructions for responding to a recall. The document can be accessed at <http://www.nfsmi.org/foodrecall>.

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Glossary of Terms

Agricultural Marketing Service (AMS): The USDA Agency responsible for purchasing such as meat, poultry, fish, fruits, and vegetables. AMS also provides end product certification that, at a minimum, certifies that diverted or substituted meat and poultry USDA Foods are replaced with generically identical USDA Foods of US origin that meet DF specifications. AMS purchases Group A USDA Foods

Average Price File for Processors: This file lists the price of USDA Foods used for processing and includes the material numbers, description, pack sizes and other pertinent information. The pricing information is used to determine the value pass through for the upcoming Agreement year that begins on July 1. The price represents the average of prices over the previous 12 months.

Backhaul: The pickup of a USDA food from a Recipient Agency facility by a processor for processing and return. There may be an additional charge per pound to pick up the food. Any substitution of backhauled USDA is expressly prohibited. RA's may need their SDA's permission to backhaul USDA food to a processor.

Bonus USDA FOOD: A food item not charged against entitlement or against a program's appropriated funds. These USDA Foods are acquired through the price-support operations of the Commodity Credit Corporation or surplus-removal operations of AMS.

“Brown Box” USDA FOODS: see Direct Delivery

Child Nutrition (CN) Labeling Program: CN labeling is a fee for service program administered by the Agricultural Marketing Service (AMS), with oversight by the Child Nutrition Division (CND) of Food and Nutrition Service (FNS). It evaluates formulations to determine the contribution a serving of a commercially prepared product makes toward the school meal pattern requirements. When approved, a label is placed on the end product that states that the product meets USDA specifications and can be credited as a component(s) of the reimbursable meal pattern requirement. As such, CN labels are a form certification that the labeled products meet its stated contribution to reimbursable school meals. RAs may rely on the label in menu planning. If the product is found not to meet its stated contributions, the school is held harmless for menu deficiencies.

Commodity File: This has been replaced with the Average Price File for Processors

Commodities: See USDA Food

Contract Value of USDA Food: The price assigned to a USDA food that reflects USDA's current acquisition price, transportation and, if applicable, processing costs related to the food.

De-escalation Clause: a provision in a contract which call for a reduction in price in the event of a decrease in specified costs.

Direct Delivery: Also known as “brown box”: Products which USDA purchases for delivery to Recipient Agencies, Direct delivery items include both unprocessed and minimally processed products as well as further processed “value added” items. Unprocessed or minimally processed items include like canned or frozen fruits and

vegetables, raw ground beef, cut up chicken and whole-body turkey, roasted pieces, and sliced cheese. Value added products include items like turkey taco meat, roasted chicken pieces, and frozen fruit cups. These products are not diverted to processors for further processing.

Direct Diversion: Items purchased in bulk form for shipment to further processors on behalf of RAs. Diverted items include chilled chickens and turkey, Coarse Ground Beef and pork and similar items that are used in making finished end products for RAs.

End Product: A finished product containing any amount of commodity food that has been commercially processed.

End Product Data Schedule (EPDS): A standard form used to describe the finished end product being produced. Information detailed on this form includes formulation, quantity of donated food needed to produce a specific number of units of end product, packaging and yield information.

Entitlement: The total commodity assistance available to a State Distributing Agency for the school meals program. It is calculated by multiplying the number of lunches claimed in the prior year by the annually established per-meal-rate.

Entitlement Rate: the per-meal entitlement established in any given year. The rate formula is established in the Act and adjusted annually based on a fixed index.

Escalation Clause: a provision in a contract which calls for an increase or decrease in price in the event of a change in specified costs.

Farm Service Agency (FSA): The USDA Agency responsible for acquiring products such as grain, dairy, peanut, and oil products under price-support activity.

Fair market Value (FMV): the fair market value is the price of commercial products used to establish the value of USDA Foods. FMV has been replaced with the average price.

Fee-For-Service (FFS): A value-pass-through system which separates the value of donated USDA Foods from the other costs of production. The FFS price represents a processor's costs of ingredients (other than USDA USDA Foods), labor, packaging, overhead, and other costs incurred in the conversion of the USDA food into the specified end product. Fee-for-service is an alternative to using a standard value pass-through system. It has traditionally been used when processing meat and poultry products or other non-substitutable USDA USDA Foods.

Fee-For-Service Through a Distributor: A VPT system whereby the distributor bills the RA for the end products that includes the Fee for Service and the distributor's costs. The distributor must provide documentation to the RA that describes the fee – for –service price and distributor cost separately.

Food and Nutrition Service (FNS): The USDA Agency responsible for administering domestic food assistance programs.

Food Distribution Division (FDD): The FNS division responsible for administering the donation of commodities to domestic food assistance programs.

Food Safety Inspection Service (FSIS): The USDA Agency whose primary mission is to inspect the wholesomeness of meat and poultry products.

Grader: A person licensed as a representative of AMS to monitor, examine, and certify the production of end products made of poultry or red meat containing USDA commodity food. All processors of USDA Foods are required to have graders present when producing processed goods. The fees assessed by USDA for graders are included in the cost of commodity processed items.

Group A Commodities [USDA no longer uses Group A and Group as identifiers): This group of commodities includes fruits, vegetables, chicken, poultry, beef, fish and eggs. These commodities are obtained under Section 32 and Section 6 funding authority of Public Law 74-320. Purchased by AMS.

Group B Commodities [USDA no longer uses Group A and Group as identifiers): This group of commodities includes cheese, flour, oil, dried beans, pasta and other grain items. Authorization for acquisition and distribution of Group B commodities are obtained under Section 416 of the Agricultural Act of 1949. Purchased by FSA.

Guaranteed Minimum Return: The minimum weight or number of finished units of processed product that will be produced and returned using a fixed amount of commodity food. This information is obtained from the End Product Data Schedule (see EPDS).

Guaranteed Return: A concept in red meat processing where the processor guarantees a fixed number of cases will be produced using a fixed amount of meat. Calculations are based on the pounds needed to produce a case of finished product (Col. 8).

IFB: Invitation for bid to processors to submit a proposal for a product based on pricing, with award to lowest bid from responsive and responsible bidders.

Indirect Refund Sale: The processor sells product to the distributor at the commercial price. The distributor will invoice the RA this price plus the distributor markup. Refunds for the value of the USDA food will be made to the RA upon receipt of the refund application.

Inventory Management: The accounting for commodity food for which a Distributing Agency, Recipient Agency, or processor is liable or responsible. In processing, the inventory can include food in physical inventory (on hand), in finished USDA Foods, or in book inventory.

Limited Substitution: A term describing a processor's ability to substitute commercial poultry for USDA purchased poultry with the concurrence of both AMS and FNS.

Manufacturing Yield: The actual yield a processor achieves when converting raw commodities into a finished end product.

Monthly Performance Reports (MPR): Reports submitted monthly by the processor to the Distributing Agency detailing receipts of commodity food, sales of finished end products to Recipient Agencies, and information on the commodity food inventory.

Multi-State Food Processor: A processor who has entered into a processing agreement with agencies in more than one State or a processor who has entered into a processing agreement with an Agency that is in a State other than where the processor's plant or business office is located. If finished product crosses a State line, the processor is considered a multi-State processor.

National Processing Agreement (NPA): A processing agreement between a multi – state processor and USDA where USDA approves all End Product Data Schedules (EPDS) and holds the surety instrument for inventory protection. Used in conjunction with State Participation Agreements signed between the individual State and the processor.

National Monthly Performance Report (NMPR): A report submitted to FNS under the National Processing Agreement that summarizes the individual State monthly performance reports for the purposes of national monitoring of the processor's inventory balances.

“Net off Invoice” (NOI): A VPT system. Processors sell finished product to distributors at commercial price. Distributor sells end product to RA at price minus the value of the USDA food. Distributor submits documentation to processor that product was sold and receives a credit from processor. Verification of sales from RAs is required.

Non-substitutable Food: A USDA food that cannot be substituted with a commercially purchased product under the terms of a processing agreement.

One Hundred Percent Yield: A requirement that 100 percent of the substitutable commodity food given to the processor actually be contained in the finished end product returned to the eligible Recipient Agency. Any manufacturing losses (the difference between 100% and the manufacturing yield) are to be made up by the processor with commercial USDA Foods of domestic origin and equal or better quality than the commodity that was provided.

Per Meal Rate: The national average value of commodity shall be adjusted each July 1 to reflect the annual percent change for the five major food components in the Bureau of Labor Statistics Producer Price Index during the months of March, April, and May in the Price Index for Food Used in Schools and Institutions.

Planned Assistance Level (PAL): The total commodity assistance available to a School Food Authority / Recipient Agency for the school lunch program is calculated by multiplying the number of lunches claimed by the School Food Authority in the prior year by the established per-meal-rate.

Processor: Any commercial facility which processes or repackages commodity USDA Foods. However, commercial enterprises, which handle, prepare and/or serve products or meals containing commodity USDA Foods on-site solely for the individual Recipient Agency under contract are exempt under this definition. School food authorities that provide meals to other eligible outlets are exempt from being defined as processors if they provide accountability for the commodities they are given and return any profit from the venture to their own school food service account.

RFP: Request for Proposal is an invitation to processor to submit a proposal for end products that will identify risks and benefit that can be evaluated in conjunction with pricing.

Rebate: A VPT where the RA pays the commercial price for processed items and then submits a request for rebate for the value of donated food used. A value pass-through system by which a Recipient Agency purchases a processor's end products at the commercial price and receives from the processor, by means of a refund application, a payment equivalent to the value of the USDA USDA Foods contained in the end products. See the definition of Refund Application and Indirect Refund Sale.

Recipient Agency (RA): Any of the following organizations within a State eligible to receive USDA commodity USDA Foods: schools (public and private), residential child care institutions, charitable institutions, nutrition programs for the elderly, summer camps, Summer Food Service Program participants, and soup kitchens.

Redonation: A USDA Food that has been shipped to one State Distributing Agency (SDA), then returned to the custody of USDA and given to another SDA.

Refund Application: An application (usually a pre-printed form) completed by a Recipient Agency or distributor and sent to the processor that certifies the purchase of end products. Receipt of the refund application obligates the processor to refund the contract value of the commodity food contained in the end products purchased. This application may be sent electronically.

Refund System: see Rebate

Single Inventory: This concept was introduced in Policy Memo No.FD-020 (see Appendix No. 10) The main premise of this policy was to eliminate the obligation of the RA to maintain and report separate inventories and values of commercial and commodity USDA Foods. Since USDA has promoted commercial labeling of commodity USDA Foods and the increase of processed raw commodities by commercial vendors, it had become increasingly difficult for RA's to discern the difference between the two. This policy represents a paradigm shift in how commodity food is valued once the RA receives it. In essence, once the RA receives the commodity food it becomes indistinguishable from commercial product. As a result, the concept of backhauling has changed. Since the majority of states now participate in Single Inventory, the burden of responsibility is now the RA's to require the processor to account for inventory tracking of backhauled product, instead of RA's needing their SDA's permission to do this.

Standard Yield: A concept that originated in poultry processing where the processor guarantees a fixed number of cases will be produced using a fixed amount of commodity. The standard yield is always fixed at a level that requires the processor to add some commercial product to achieve the required yield. Standard yield could be used for other commodities when a processor has significant manufacturing loss in the production of an end product.

State Distributing Agency (SDA): The agency, usually an agency of State government, which enters into an agreement with FNS for the distribution of commodity food to eligible Recipient Agencies.

State Participation Agreement (SPA): An agreement between an individual State and a multi-State processor, which defines how the processor may do business in that particular State. Used in conjunction with a National Processing Agreement (NPA)

Summary End Product Data Schedule (SEPDS): A compilation of the information that was provided through the submission of individual EPDS's to USDA under a National Processing Agreement. This schedule provides relevant information to RAs regarding case weight, serving sizes, approximate servings per case, and the commodity food needed to produce a case of finished product.

Substitutable Food: A USDA commodity food that may be replaced by a commercially purchased food of domestic origin, generically identical and equal or better in quality.

Transfer: The giving of USDA food by an eligible Recipient to another eligible Recipient. Transfers between like Recipients are approved by the State or States involved and transfers between unlike Recipients must be approved by FNS.

USDA Food: Food for donation by USDA to eligible RAs. USDA USDA Foods are also referred to as “commodities”. Although commodities are purchased with “entitlement dollars”, those dollars are provided by law to eligible RAs

Value Pass-Through System (VPT): A system used to ensure that the full value of the USDA food contained in the end product is passed on to the eligible purchasing Recipient Agency. See the definitions for Refund System, Indirect Refund Sale, Fee For Service, Fee for Service Through a Distributor and NOI

WBSCM: Web Based Supply Chain Management is an internet based computer system used by USDA to process and track USDA food for nutrition assistance programs.

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List of Appendices

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ACDA Recommended Forms [pending]

RA/distributor Agreement-FFS

RA/distributor Agreement NOI

Processor/distributor Agreement-FFS

Processor/Distributor Agreement NOI

RA Designation to Distributor as Authorized Billing Agent

Food Distribution Guidance Memos

[FD-061](#) Inbound Cheese to Further Processors Revised 10/17/11

[FD-064](#) Managing of Donated Food Inventories at Processors Revised 03/20/2012

[FD 102](#) Waiver and replacement current regulatory thresholds for independent CPA audits of multi-state processors (seems like a processor issue not RA)

[FD 103](#) Waiver of Requirement to Submit copies of refund request and payments with state MPR (seems like a processor issue—not RA)

[FD 104](#) Value of USDA donated USDA Foods for audits

[FD-105](#) setting aside the Commodity Acceptability Reporting Requirement

[FD-107](#) Storage and Inventory Management of USDA donated Foods (how is this different from FD 064??)

[FD-108](#) Waiver of Requirement for SDA Submission of Information from MPR (seems like State issue not RA)

[FD 110](#) Clarification of Reporting Requirements and Replacement of Donated Foods in Disasters, Emergencies and Situations of Distress

[FD-119](#) was recommended to be excluded as it is exactly the opposite of what was asked for soliciting Bids from Commercial Distributors for End Products

[FD-121](#) Donated Foods Possibly Containing LFT

[FD-122](#) Substitution of Donated Foods in Advance of Purchase and Negative Inventories

Food Nutrition Service Policy Memos

[SP 14-2012](#) Procurement Questions Relevant to the Buy American Provision 02-13-2012

[SP 35-2012](#) Procuring Services of Purchasing Cooperatives, Group Purchasing Organizations, Group Buying Organizations 06-12-2012

[SP 41-2011](#) Indirect Cost Guidance 07-07-2011

[SP 18-2011](#) Procurement Geographic Preference Q and A's 02-01-2011